

AMERICAN CITY & COUNTY

administration • engineering • operations



**Dividing the Pie
Between Public and Private**

**Industry
Outlook '84**

AMERICAN CITY & COUNTY

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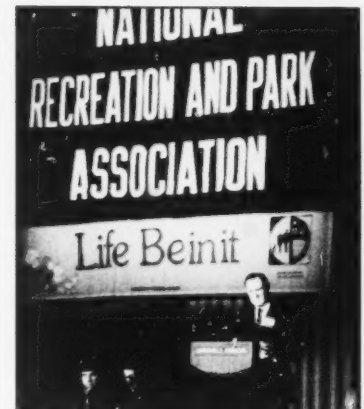
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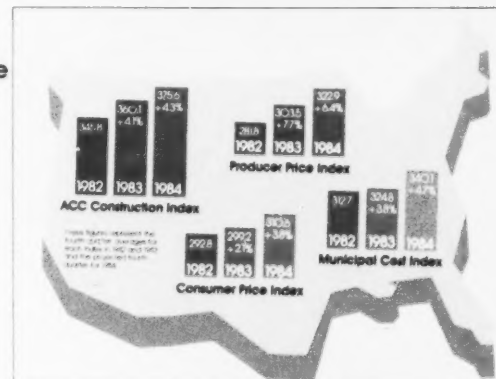
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As the costs of public services continue to rise, local governments are looking increasingly to the private sector for help. The subject of privatization is discussed in-depth in this issue starting on page 70.



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Expanding Economy Should Spur Growth

By Jeff Atkinson

Inflation, interest rates and the federal deficit will play a leading role in the costs of goods and services.

Municipalities can expect to pay 5 percent more in 1984 for the same goods and services purchased in 1983, according to estimates of leading economists, industry officials and government employees polled by AMERICAN CITY & COUNTY.

"Inflation will rise from the current 4.5 percent to 5 percent to not much lower than 7 percent by the end of next year," according to Rosanne Cahn, an economist with Goldman, Sachs & Company in New York City. Cahn says, "action on the federal deficit probably could not change the inflation increase by the end of 1984. I wouldn't expect much change (deficit) during an election year." The Bureau of Economic Analysis estimates a federal deficit of \$179.7 billion for fiscal 1984.

As a result of the inflation increase, AMERICAN CITY & COUNTY predicts that the Municipal Cost Index will rise 4.7 percent in 1984. The Municipal Cost Index, which is based on percentages of the ACC Construction Cost Index, Consumer Price Index and Producer Price Index, rose 3.8 percent in 1983.

The Consumer Price Index, a "market basket" of goods and services that serves as a barometer for the rise and fall of inflation, is expected to increase 3.8 percent in 1984. The Office of Management and Budget expects the CPI to increase by approximately 4.5 percent, an increase of 1.5 percent from the 1983 estimate of 3 percent.

At some point in a business expansion — especially a vigorous one — industrial pressure begins to balloon the price indexes, particularly those of sensitive commodities. This has not occurred yet. The Producer Price Index, which measures price changes at the producer level, is projected to increase 6.4 percent in 1984. Last year, the Producer Price Index increased 7.4 percent. The Producer Price Index is important because it foretells coming price changes

in the wholesale and consumer markets. The ACC Construction Cost Index, which is based on construction and building costs, is expected to increase 4.3 percent in the coming year, in comparison with a 4.1 percent hike in 1983. While construction spending has fallen in recent months, James Fralick, a vice president and economist with Morgan Guaranty Trust Company of

New York City, predicts a "brightening" in the construction market for the state and local sectors in 1984. "Federal grants have stabilized and they will likely grow in the coming year." The nickel-a-gallon gasoline tax is the primary reason for the available federal money, according to Fralick.

Fralick says, "states and localities are moving back into surplus. This will

make them more inclined to spend money on construction projects." State and local government surpluses have increased from 1982 levels as receipts increased more than expenditures. This is mainly due to increases in the "other" surplus category, surplus excluding social insurance funds, according to the Bureau of Economic Analysis.

"Construction spending should pick

up as state and local governments begin to repair and rebuild their capital stock," says Fralick.

However, not all regions are benefiting from the recovery equally. Fralick says, "Repair and rehabilitation is beginning to fare well in the Northeast. The heartland is on the way back, while the energy states are lagging behind."

Heavy financial debts and high inter-

est rates may curb construction spending and outlays. While financial drawbacks could delay some projects, these delays should not be strong enough to cause a real decline.

Money flowing from the Surface Transportation Assistance Act is likely to boost highway and bridge construction this year. Renovation and rehabilitation work could increase if the money supply and interest rates are eased. And robust public works projects could be fueled by increased government aid.

The outlook for sewage and wastewater treatment projects will be down in the coming year, according to Pat McCoy, an economist with the Department of Commerce, Bureau of Industrial Economics. "The winding down of Environmental Protection Agency programs will bring about the net decline." However, about \$600 million in grants and loans for rural water and sewer programs under the Emergency Jobs Appropriations Act should help the market.

"Education and water works projects should benefit from the sale of general revenue bonds," says McCoy.

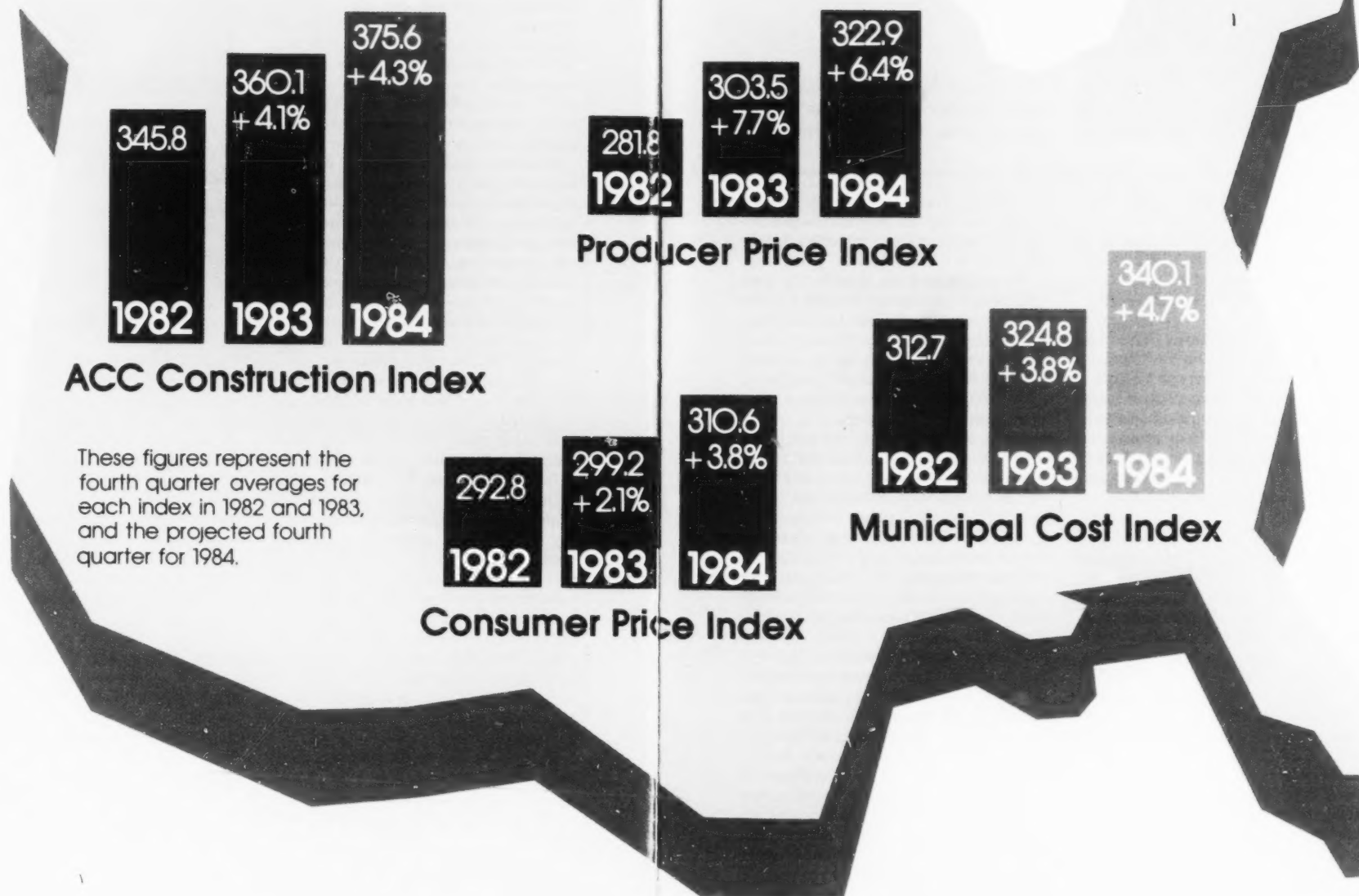
Slow growth in the construction market has its disadvantages. Yet, it is less risky than the boom-bust cycles of the past. To ensure a profitable future, firms will have to try new approaches and concepts to meet the changing market needs.

The National Electrical Manufacturers Association predicts the electrical industry will outpace the gross national product in 1984, with a 6.3 percent growth that reflects a capital goods turnaround as well as continued growth in other segments of the economy. The gross national product is the market value of all final goods and services produced by an economy in a given period.

NEMA, the nation's largest trade association for manufacturers of equipment for generation, transmission, distribution, control and end-use of electricity, predicts a 7.3 percent real growth in electronic products.

The Department of Commerce reports that orders for machinery and manufactured goods are rising. The bulk of investment is targeted for new capital equipment.

Overall, municipalities should be able to begin rehabilitation, renovation and new construction projects in 1984, if interest rates can remain stable and increased governmental aid becomes available.



ACC Construction Index

Producer Price Index

Municipal Cost Index

Consumer Price Index

These figures represent the fourth quarter averages for each index in 1982 and 1983, and the projected fourth quarter for 1984.

MUNICIPAL COST INDEXES

Due to decreases in the cost of construction and building materials, the ACC Construction Cost Index fell for the second straight month. The 0.2 percent decrease in the construction cost index, coupled with stable commodity prices, helped hold down the increase (0.1 percent) in the Municipal Cost Index.

The biggest index change was registered by the Consumer Price Index, which rose 0.5 percent for the month.

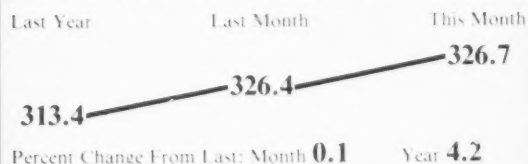
Compiled by Jeff Atkinson

THIS MONTH'S MARKETBASKET

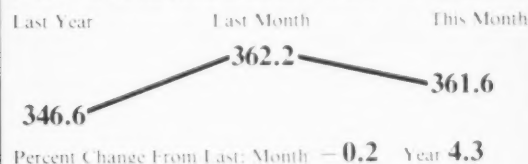
	Current Index	Percent Change From: Last Month	Last Year
Air Conditioners	142.9	-0.3	3.9
Apparel	197.4	0.1	1.0
Asphalt Roofing	385.7	1.0	-6.7
Books	121.8	-0.1	6.1
Chemicals, Industrial	346.3	-0.6	-0.1
Coal	536.1	0.4	-0.4
Concrete Products	302.8	0.2	1.4
Construction Machinery	353.4	0.2	1.7
Diesel Fuel	693.7	1.0	-11.6
Electric Lamps	326.7	4.2	12.7
Electric Power	428.2	0.5	3.2
Electric Components	186.0	0.3	5.6
Engines, I.C.	340.2	-0.4	1.3
Fans and Blowers	337.1	0	0.1
Fertilizers, Mixed	255.0	-1.2	-5.2
Floor Coverings	188.2	0.1	3.7
Footwear	250.9	0.3	1.0
Foundry Products	359.7	0	1.8
Fuel Oil No. 2	737.5	1.5	-9.9
Furniture, Commercial	287.7	0.2	3.4
Gasoline	620.6	-0.9	-9.4
Generator Sets	334.0	0.1	7.3
Glass	229.7	0	3.8
Glass Containers	351.2	0	-2.1
Gypsum Products	295.7	2.2	16.5
Hardware	289.8	0	2.5
Heating Equipment	244.7	0	2.3
HVAC Controls	122.2	0.7	4.4
LP Gas	718.0	-1.1	11.0
Lubricants	351.3	0.4	-0.2
Lumber	348.2	-5.1	N/A
Metal Fabrications	303.8	-0.3	-0.8
Millwork	305.7	-0.6	9.4
Motor Vehicle Parts	358.6	-0.1	-0.2
Mowers	253.3	1.3	2.4
Natural Gas	1427.1	0.5	-1.2
Office Machines	154.7	0	1.4
Paint	264.5	-0.5	-0.1
Paper	285.3	1.5	0
Passenger Cars	288.0	-4.8	4.1
Plumbing Fixtures	291.5	-0.1	5.2
Plywood	242.4	-1.0	6.1
Portland Cement	348.3	1.1	3.3
Pumps	345.8	0.1	-0.7
Residual Fuel	1174.9	2.0	4.8
Sand and Gravel	286.2	0	2.0
Sanitary Papers	359.2	-0.4	0.4
Soaps, Detergents	265.0	1.3	4.2
Sporting Goods	207.1	0.2	-0.3
Steel Mill Products	357.7	1.8	2.7
Struc. Clay Prod.	281.7	0	6.7
Switchgear	269.9	0.1	2.3
Tires and Tubes	242.5	0	-5.1
Transformers	224.6	0.5	2.1
Trucks	301.2	-4.0	4.1
Valves	99.5	-0.3	N/A
Wire and Cable	283.8	-0.3	2.0
Wiring Devices	336.6	0.2	3.1

At-A-Glance Changes

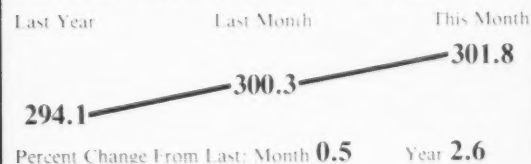
ACC MUNICIPAL COST INDEX



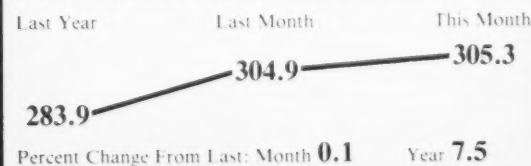
ACC CONSTRUCTION COST INDEX



CONSUMER PRICE INDEX (BLS)



PRODUCER PRICE INDEX (BLS)



QUARTERLY MUNICIPAL TRENDS

	Current Level	Percent Change From: Last Qtr.	Last Year
Receipts	478.5B	3.6	9.5
Federal Grants	86.8B	1.2	2.0
Durable Purchases	14.2B	2.2	7.6
Consumables	31.2B	1.3	0
Services	325.4B	1.8	7.7
Structures	37.7B	-4.6	-7.6
Salaries, Wages	238.1B	1.8	7.7
Surplus	51.8B	28.2	61.9
Employment	13,085M	0.9	1.2